

Chapter 10

Appropriateness (for non-advised services) (non-MiFID and non-insurance-based investment products provisions)

Assessing appropriateness: units in a long-term asset fund

This Annex belongs to ■ COBS 10.2.9G(1)(m).

When determining whether a *retail client* has the necessary knowledge to understand the risks involved in relation to a *long-term asset fund*, a *firm* should consider asking the *client* questions that cover, at least, the following matters:

- (1) the possibility that the *client* could see the value of the amount they invest go down;
- (2) the potential illiquidity of *LTAfs* and their underlying assets;
- (3) the possibility that it could take the *client* many years to make a profit on the *money* they invest, and (where relevant) that payments of income may be limited or non-existent;
- (4) that due to the *dealing* frequency and *notice period* after a *redemption* request has been accepted (see ■ COLL 15.8.12R (Dealing: redemption of units):
 - (a) the *client* will not know the value of the proceeds of *redemption* until the end of the *notice period*; and
 - (b) it will take at least [period of time] for the *client* to receive the proceeds of *redemption*;
- (5) the risk of the *LTAf's investments* failing and the associated risk of the *client* losing all of the *money* invested;
- (6) the extent to which the protection of the *Financial Ombudsman Service* or *FSCS* apply to the investment activity (including the fact that these services do not protect investors against poor investment performance);
- (7) the nature of the *client's* contractual relationships with the *authorised fund manager* (including its role in assessing and making underlying *investments*);
- (8) the benefits of diversification and that *retail clients* should not generally invest more than 10% of their net assets in *restricted mass market investments*;
- (9) where the *units* in the *LTAf* are, or are to be, *dealt* or *arranged* by another *firm* (AF):
 - (a) the nature of the *client's* contractual relationships with (AF);
 - (b) the role of AF and the scope of the service it provides to *clients* (including the extent of the due diligence that AF undertakes in relation to *units* in *LTAfs* that it *deals* in or *arranges*); and
 - (c) the risk to any management and administration of the *client's* investment in the event of AF becoming insolvent or otherwise failing.